Training Module:

Developing Your Strategic Plan

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Why Discuss Strategic Planning?

• Critical to the health, growth, and sustainability of CDFI MDIs

• A lack of strategic planning is cited as a common weakness in enforcement actions

• Strategic planning provides your bank the opportunity to prioritize goals and action items to focus time and resources on key initiatives
Structure of Module

I. Importance of Strategic Planning

II. Elements of Strategic Planning

III. Integration of Risk-Based Strategic Planning

IV. Strategic Planning Roadmap and Walkthrough of Tools and Resources
Goals of the Strategic Planning Session

• To provide an overview of strategic planning techniques and an assessment of your overall capabilities in strategic planning

• To develop a framework to prioritize and inform development of your goals using SWOT (strengths, weaknesses, opportunities, and threats) analysis and benchmarking techniques

• To understand the framework for strategic planning

• To learn how to create actionable goals

• To learn the seven big risk management areas to build into the plan

• To provide a strategic planning roadmap as a step-by-step implementation guide
Clear Understanding of the Strategic Focus is Critical

What you thought you needed
What your staff heard
How the BOD understood the request
What the IT Dept. heard
How the Credit Officers understood the need
How the strategy was documented
What the finance team focused on
What the stakeholders envisioned
How it was supported
What you really wanted
## Value of the Strategic Planning Process

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<th>Strategic Planning Process</th>
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<td>• Establishes consensus for organizational vision and values</td>
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<td>• Identifies opportunities and challenges</td>
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<td>• Serves as the filter for all business decisions</td>
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<td>• Develops measurable goals and a framework for midstream adjustments</td>
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<td>• Helps institutions to become more proactive vs. reactive</td>
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<td>• Promotes ownership and accountability (addresses the push and pull between board and management)</td>
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<td>• Meets regulatory expectations and provides context for performance</td>
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CDFI MDIs Face Unique Sustainability Challenges

• Competing with larger financial institutions
• Keeping pace with new technologies to run banking operations
• Complying with regulatory requirements
• Managing a high touch business model in a low cost environment
• Mitigating high market concentration risk
• Dealing with slow recovery in the markets they serve

The lack of strategic planning was commonly cited in the regulatory enforcement actions for CDFI MDIs
Elements of Strategic Planning

Overview of 5 key steps of planning
Elements of Strategic Planning

Element 1: Benchmarking & SWOT
- Assessing your historical performance as a baseline for goal-setting. Conducting an environmental scan (SWOT analysis technique)

Element 2: Vision, Mission & Values
- Understanding why you are in business and your core principles

Element 3: Strategy Development
- Developing strategies that tie to your mission, vision, and values

Element 4: S.M.A.R.T Goals
- Establishing specific, measurable, and actionable goals that support your strategies

Element 5: Performance Management
- Measuring progress and success relative to goals
Element 1: Benchmarking

- **Benchmarking** sets the standard for CDFI MDI’s “actual performance” relative to regulatory standards, customer perceptions, staff feedback, and peer comparisons

- **Tools include:**
  - Comparison of budget vs. actual performance
  - Regulatory exam results
  - FDIC peer comparison on key measures
  - Comparison of past strategic/financial plans vs. results
  - Pre-meeting questionnaires for board, management, and staff
  - Evaluation of core risk measures
Element 1: SWOT Analysis

A **SWOT analysis** is used to identify internal and external factors affecting the bank’s strategic direction.

<table>
<thead>
<tr>
<th><strong>INTERNAL</strong></th>
<th><strong>EXTERNAL</strong></th>
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<tbody>
<tr>
<td><strong>S</strong> Strengths</td>
<td><strong>W</strong> Weaknesses</td>
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<tr>
<td>• Products</td>
<td>• Outdated IT systems</td>
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<tr>
<td>• Strong community ties result in competitive advantage in underwriting</td>
<td>• Limited new technology for customers</td>
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<td>• Sources of funds readily available</td>
<td>• Lack of communication of strategy</td>
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<tr>
<td>• Reputation</td>
<td>• High cost of doing business</td>
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<tr>
<td><strong>O</strong> Opportunities</td>
<td><strong>T</strong> Threats</td>
</tr>
<tr>
<td>• New technology to reduce costs</td>
<td>• Regulatory changes</td>
</tr>
<tr>
<td>• Mobile banking</td>
<td>• The rate of innovation</td>
</tr>
<tr>
<td>• Changes in policies for MDIs</td>
<td>• Entrance of alternative lenders</td>
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<tr>
<td>• Mergers and acquisitions</td>
<td>• Slow market recovery</td>
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<td>• Growth in exporting</td>
<td>• New capital partners</td>
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Element 2: Vision, Mission, & Values

Consensus on the guiding vision and values of your CDFI MDI is the foundation to successful strategic planning.

- What kind of bank do we want to be for our shareholders, our communities and our customers?
- What are our core values?
- Is our original mission still relevant and realistic?
- How will our community be better off?
Element 3: Strategy Development

- Strategy development is the linear response to your CDFI MDI’s current position (benchmarking) and your foundational principles (mission, vision, and values)

- Identify and prioritize SWOT (internal strengths and weaknesses and external opportunities and threats)

  - Bank has made 49% of its loans to low to moderate income (LMI) borrowers

  - Original mission: to be the bank of choice for LMI borrowers
  - Revised mission: to serve underserved persons and communities

  - Bank evaluates product mix and pricing. More fees passed on to UI customers to support LMI product mix and delivery costs
**Element 4: Establishing SMART Goals**

Use the SMART goals methodology to establish reasonable goals with measurable outputs that tie to desired outcomes – *key for performance management*

| S | SPECIFIC: Goal should be detailed and action-oriented |
| M | MEASUREABLE: Consider how you will measure success (quantity/quality) and evaluate whether or not the goal has been achieved |
| A | ACHIEVABLE: Strike a balance between challenging your organization and being realistic. Consider current resources and lessons learned |
| R | RELEVANT: Evaluate the relationship between the goal and the “big picture.” How does the goal advance your overall objectives? |
| T | TIME-BOUND: Select specific dates for deliverables, action items and milestones; this should include both short and long term goals |
# SMART Goals vs. “Not Smart” Goals

## Examples of SMART Goals

**Example One:**
By January 31, 2014, review and update all portfolio monitoring policies and procedures, and establish specific guidelines on the frequency of future policy reviews to ensure management is able to respond quickly to portfolio concerns.

**Example Two:**
By Q1 of 2014, establish and adopt a succession plan for all Level 3 management positions that includes the identification of high potential candidates for Level 3 management roles, an assessment of their training and/or exposure needs, and a timeline for implementation.

## Examples of “Not Smart” Goals

**Example One:**
Update our portfolio monitoring policies.

**Example Two:**
Develop succession plans for key staff.

**Tip:** Action plans can be managed by either specific dates or quarters. The degree of specificity depends on the bank’s culture.
Element 5: Performance Management

Implementing strategic objectives requires communication, accountability and a commitment to consistent performance evaluation.

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<tr>
<th>Communication</th>
<th>Accountability</th>
<th>Performance Evaluations</th>
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| • Strategic plan should be formally adopted by the board | • The plan should include specific:  
  - Action items  
  - Deliverables  
  - Senior management or directors accountable for specific goals | • Performance-to-plan should be part of every management and board meeting agenda  
• Corrective action should be taken where deliverables and/or timelines are not being met |
| • The plan should be communicated to senior managers and staff | | |
| • Performance-to-plan should be a line item on board meeting agendas | | |
Leading Practices in Performance Management

- Review the strategic plan and include it as a line item in both management and board meetings
- Ensure the strategic plan is an “organic” vs. a shelf document
- Provide copies of the strategic plan to staff to ensure both understanding and buy-in
- When performance-to-plan is comprised, investigate root causes and take corrective action
- Engage staff to understand root causes of missing plan deadlines
- Use the strategic plan as a reference tool in developing lending goals and budget development. This ensures staff ownership of the plan and reinforces value
The Role of Risk-Based Strategic Planning

Addressing key areas of risk as part of the planning process
Elements of Risk-Based Strategic Planning

1. Market Performance
2. Regulatory
3. Product & Service
4. Operational
5. Credit
6. Interest Rate
7. Reputation

Key risks your regulators care about and want to see integrated into your strategic plan

The "Big 7"
Risk-Based Strategic Planning: “The Big 7”

1. **Market Performance Risk**: liquidity, equity

2. **Regulatory Risk**: adherence to current regulations and preparedness for new regulations, changes, recent case law, current/past performance actions, regulator ratings, and audit findings

3. **Product/Service Risk**: performance of major product lines, proposed new products, and related impacts

4. **Operational Risk**: growth/constriction and complexity of operations and 3rd party relationships
Risk-Based Strategic Planning: “The Big 7”

5. **Credit Risk**: effect of target market factors on lending, changes in underwriting, policy overrides, delinquency, and loan pricing

6. **Interest Rate Risk**: use of different indices to price assets and liabilities, lagged or asymmetric pricing behavior on bank-managed rates

7. **Reputation Risk**: threats include negative publicity from high profile litigation, poor financial performance, questionable outsourcing/alliances/partnerships, etc.
Roadmap for Strategic Planning

Process for developing a strategic plan, and tools and resources to support your CDFI MDI in getting started
Who is at the Table for Planning and What is Their Role?

**Directors**
- PARTICIPATE! Engage in pre- and post-session strategic work
- Provide thoughtful and informed strategic input to promote the sustainability and growth of the bank
- Assign designee to coordinate the strategic planning process and facilitator options

**Senior Management**
- Deliver data required for benchmarking activities
- Provide open, honest feedback
- Add the element of “reality” and “grounding” to support the SMART goals framework

**Facilitator**
- Serve as “guide” for discussion
- Set expectations for process and “end game”
- Provide notes and documentation required for performance management
Do you have board buy-in?
Importance and Role of the Facilitator

• Valuable for your CDFI MDI to “make time” for strategic planning

• An independent stakeholder can help get the real picture

• Facilitator can support your CDFI MDI with “end-to-end” strategic planning services – tend to be most efficient approach
  – Includes support with pre-planning, facilitation of planning session, and post-session planning including development of a written strategic plan

• Some examples of ways that a facilitator can provide support include:
  – Assistance with environmental scan and prioritization (to update an existing strategic plan)
  – Board development training on the strategic planning process
  – Review of regulatory risk factors and assistance with action plan development
## Selecting a Facilitator

### Expectations of a Strategic Planning Facilitator

**Facilitator should have the following skills:**
- Experience in bank strategic planning
- Understanding of, or experience in, the banking industry (preference for community or smaller banks)
- Experience in banking strategies and strategy development that are at the core of your institutional mission and goals

**Facilitator should be able to:**
- Manage time and discussions to achieve objectives of the planning session
- Guide discussions to ensure difficult issues are addressed, to support execution of each element of strategic plan development, and to deliver a strategic planning document
- Provide timely front-end and post-session execution of deliverables
- Customize process and tools used to the needs of your CDFI MDI

**Tip:** Check with peers for recommendations
Strategic Planning Roadmap

Begin the strategic planning process and environmental scan at least 3-6 months in advance of the strategic planning session.
## Sample Timeline of Strategic Planning Process

<table>
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<tr>
<th>Key Steps</th>
<th>Timeframe (approximate)</th>
<th>Sample Calendar Cycle</th>
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<tbody>
<tr>
<td>Develop Planning Timeline and Approach</td>
<td>1 – 2 months</td>
<td>May</td>
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<tr>
<td>• Discuss alternative approaches and plan desired format of end product</td>
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<tr>
<td>• If needed, get board buy-in of process</td>
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<tr>
<td>Pre-Planning</td>
<td>3 months</td>
<td>June – August</td>
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<tr>
<td>• Review historical performance</td>
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<tr>
<td>• Gather relevant data and stakeholder input</td>
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<td></td>
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<tr>
<td>Planning Session(s)</td>
<td>1 month</td>
<td>September</td>
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<tr>
<td>• Prioritize and set goals</td>
<td></td>
<td></td>
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<tr>
<td>• Develop framework for strategic plan</td>
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<tr>
<td>Post-Planning</td>
<td>1 – 3 months</td>
<td>October – December</td>
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<tr>
<td>• Develop action plan</td>
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<tr>
<td>• Build in performance management</td>
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<tr>
<td>• Write formal strategic plan</td>
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Pre-Session Activities Overview

• Communicate roles and responsibilities
• Establish a strategic planning committee
• Agree on a strategic planning process
• Select a facilitator
• Conduct environmental scan activities (SWOT analysis and benchmarking)
• Identify key issues, questions, and choices to be addressed as part of the strategic planning effort
Pre-Session: Tools and Exercises

I. Handouts and Preparation Tools (designed to help you prepare for your strategic planning session)
   • Pre-Planning Checklist and Timeline
   • Historical Performance Analysis
   • Capacity Assessment Tool
   • SWOT Analysis

II. SWOT Analysis Exercise
   • At your table groups, discuss the external portions of the SWOT (opportunities and threats)
     – What opportunities and threats do you see for the CDFI MDI industry?
     – Currently and in the short and long term future
   • Review your individual capacity assessment tool results and the group benchmarking data provided to assess your internal strengths and weaknesses

Further Resources: All of the strategic planning handouts or tools can be found in your training binder or on the Virtual Resource Bank online after the training.
Strategic Planning Session Tips

- Define/review the organization’s values, community vision, and mission
- Develop a shared vision
- Develop SMART goals to be executed over a specified number of years
- Agree upon key strategies to reach the goals and address key issues identified through the environmental scan
Strategic Planning Session: Tools and Exercises

I. Handouts with Strategic Planning Tools (designed to help you during your strategic planning session)
   • Worksheet for Prioritizing SWOT Analysis
   • SMART Goals Template (part of performance management tool)

II. Prioritizing Your SWOT Exercise
   • Rank top 2 strengths, weaknesses, opportunities, and threats from the industry SWOT developed in the previous exercise
   • Discussion of strategies for making difficult strategic decisions

Further Resources: All of the strategic planning handouts or tools can be found in your training binder or on the Virtual Resource Bank online after the training.
Post-Session Activities

- Develop an action plan that addresses goals, specifies objectives, and establishes work plans
- Finalize a written strategic plan that summarizes the results and decisions of the strategic planning process
- Build in procedures for monitoring, and for modifying strategies based on changes in the internal or external environment
Post-Session: Tools and Exercises

I. Handouts and strategic planning tools (designed to help you design your strategic plan and help you follow through with your goals)
   • Outline of a Strategic Plan
   • Performance Management Tool

II. Walkthrough SMART Goals Template

Further Resources: All of the strategic planning handouts or tools can be found in your training binder or on the Virtual Resource Bank online after the training.
Wrap-Up
Key Takeaways

• Strategic planning is critical to both the sustainability and growth of a financial institution

• The strategic planning process should be “owned” by the directors. Management should provide support and honest, direct feedback

• The integration of risk-based strategic planning techniques is critical given regulatory emphasis and the importance of sound risk management with regard to the overall health of the bank

• SMART goals are the foundation for establishing realistic deliverables and managing performance
Examples of Potential Technical Assistance

• Assist with preparation and leading of discussions with board on importance strategic planning

• Develop scope and timeline for strategic planning

• Conduct an environmental scan including analysis of capacity assessment tool results, support with benchmarking, and external analysis of opportunities and threats

• Facilitate a strategic planning session including support with developing an action plan

• Assist with development of SMART goals

• Help with incorporating performance management tools
Questions?
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